

## Message Text

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ORIGIN EB-08

INFO OCT-01 ISO-00 AF-08 ARA-10 EA-09 EUR-12 NEA-10 SIG-02  
AGRE-00 CIAE-00 COME-00 INR-07 LAB-04 NSAE-00 SP-02  
STR-04 TRSE-00 FRB-01 OMB-01 FTC-01 L-03 AID-05 IGA-02  
H-02 SS-15 NSC-05 PA-02 PRS-01 USIA-15 /130 R

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ARA/ECP:BBURSON

AF/EPS:DMCCULLEN

-----020806 106948 /21

R 012056Z MAR 77

FM SECSTATE WASHDC

TO ALL AMERICAN REPUBLIC DIPLOMATIC POSTS

AMEMBASSY ABIDJAN

AMEMBASSY ACCRA

AMEMBASSY ADDIS ABABA

AMEMBASSY BANGUI

AMEMBASSY BUJUMBURA

AMEMBASSY CONAKRY

AMEMBASSY COTONOU

AMEMBASSY FREETOWN

AMEMBASSY DAR ES SALAAM

AMEMBASSY JAKARTA

AMEMBASSY KIGALI

AMEMBASSY KINSHASA

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY LOME

AMEMBASSY MONROVIA

AMEMBASSY NAIROBI

AMEMBASSY NEW DELHI

AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

AMEMBASSY TANANARIVE

AMEMBASSY YAOUNDE

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AMEMBASSY LONDON

USMISSION OECD PARIS

USMISSION EC BRUSSELS

USCINCSO

XMT AMEMBASSY BRIDGETOWN

AMEMBASSY BUENOS AIRES

AMEMBASSY GEORGETOWN

AMEMBASSY MONTEVIDEO  
AMEMBASSY NASSAU  
AMEMBASSY PARAMARIBO  
AMEMBASSY SANTIAGO

UNCLAS STATE 045016

E.O. 11652: N/A

TAGS: ETRD, EAGR

SUBJECT: CONGRESSIONAL COFFEE HEARINGS

REF: STATE 03956 AND 03957

1. SUMMARY. CONGRESSIONAL HEARINGS ON COFFEE PRICES CONDUCTED ON FEBRUARY 22 AND 23 INCLUDED CHARGES THAT BRAZIL HAS BEEN CONDUCTING A CAMPAIGN TO INFLATE AND ARTIFICIALLY MAINTAIN HIGH COFFEE PRICES. STATE AND OTHER GOVERNMENT AND INDUSTRY WITNESSES TESTIFIED THAT THERE IS NO EVIDENCE TO SUPPORT SUCH CHARGES. PRESS COVERAGE TO DATE HAS BROUGHT OUT BOTH SIDES OF THE ARGUMENT, BUT HAS FOCUSED MORE ON ALLEGATIONS OF MANIPULATION THAN ON STATEMENTS TO THE CONTRARY.

2. ON FEBRUARY 22 AND 23, CONGRESSMEN ROSENTHAL (GOVERNMENT OPERATIONS) AND RICHMOND (AGRICULTURE COMMITTEE) CO-CHAIRRED HEARINGS ON THE HIGH PRICE OF COFFEE. REPRESENTATIVES FROM CONSUMER GROUPS, THE TRADE AND GOVERNMENT UNCLASSIFIED

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MENT AGENCIES, INCLUDING STATE AND AGRICULTURE, PRESENTED TESTIMONY. THE HEARINGS SPECIFICALLY SOUGHT TO DETERMINE IF PRESENT HIGH PRICES ARE THE RESULT OF MANIPULATION BY PRODUCING COUNTRY GOVERNMENTS AND WHETHER THE STATE DEPARTMENT BEARS ANY RESPONSIBILITY THROUGH ITS ROLE IN THE NEW INTERNATIONAL COFFEE AGREEMENT.

3. AT THE OUTSET OF THE HEARINGS CONGRESSMAN RICHMOND MADE PUBLIC SEVERAL OF THE UNCLASSIFIED CABLES FROM U.S. POSTS IN BRAZIL CLAIMING THAT THEY REVEALED, "THAT THE GOVERNMENT OF BRAZIL HAS BEEN CONDUCTING A DELIBERATE, PERVERSIVE CAMPAIGN TO INFLATE AND ARTIFICIALLY MAINTAIN COFFEE PRICES AT RECORD LEVELS". HE SAID THAT THEIR PRINCIPAL TOOL WAS THE EXPORT TAX, BUT THAT STOCK REGULATION AND PURCHASES FROM OTHER COUNTRIES WERE USED AS WELL.

4. JULES KATZ AND JOAN BRADEN TESTIFIED FOR STATE ON FEBRUARY 22 THAT HIGH COFFEE PRICES ARE DUE TO REDUCED SUPPLIES AND CONTINUED HEAVY DEMAND, NOT TO ANY ARTIFICIAL

RESTRAINTS ON COFFEE TRADE BY GOVERNMENTS OF PRODUCING COUNTRIES. THEY ALSO EXPLAINED THE ACTIONS TAKEN BY STATE DEPARTMENT TO MEET THE INTERESTS OF THE U.S. CONSUMER BY NEGOTIATING THE 1976 COFFEE AGREEMENT THAT ENCOURAGED EXPORTS AND REPLANTING, BY MONITORING THE PRICE RISE CLOSELY, AND BY MAKING BILATERAL AND MULTI-LATERAL REPRESENTATIONS EXPRESSING OUR CONCERN THAT HIGH PRICES WILL RESULT IN LOSSES TO CONSUMPTION AND EXPORT EARNINGS. THIS TESTIMONY WAS CHALLENGED BY SEVERAL COMMITTEE MEMBERS WITH PRIMARY CONCENTRATION ON THE INTENT AND ABILITY OF THE BRAZILIAN GOVERNMENT TO SUBSTANTIALLY AFFECT THE LEVEL OF WORLD COFFEE PRICES.

5. STATE'S TESTIMONY WAS SUPPORTED IN SUBSTANCE BY TESTIMONY FROM THE COFFEE TRADE AND INDUSTRY, WHO ALSO STATED THAT HIGH PRICES HAD ALREADY CAUSED DECLINES IN CONSUMPTION IN THE LAST FOUR MONTHS OF OVER 4 PERCENT FROM A YEAR  
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AGO. AS RETAIL PRICES CATCH UP EVEN GREATER DECLINES ARE EXPECTED AND IF PRICES REMAIN HIGH THEY COULD CAUSE A SIGNIFICANT PERMANENT REDUCTION IN DEMAND. AT LEAST ONE COMPANY IS CURRENTLY TEST MARKETING A BRAND DESIGNED TO INCREASE THE AMOUNT OF COFFEE EXTRACTED FROM EACH ROASTED PARTICLE BY 10 TO 25 PERCENT.

6. THE VICE CHAIRMAN OF THE COMMODITY FUTURES TRADING COMMISSION (CFTC) TESTIFIED THAT INVESTIGATIONS AND ANALYSES MADE BY THE COMMISSION HAVE FOUND NO EVIDENCE OF MANIPULATION OR MARKET CONTROL. HE SAID THAT CFTC IS CURRENTLY INVESTIGATING TRADING ON JANUARY 11 WHEN THE SALVADORAN COFFEE COMPANY WAS PARTICULARLY ACTIVE, BUT THAT THIS DOES NOT MEAN THERE IS PRESENTLY EVIDENCE OF MANIPULATION.

7. PRESS COVERAGE TO DATE HAS BROUGHT OUT BOTH SIDES OF ARGUMENTS, BUT HAS FOCUSED MORE ON ALLEGATIONS OF MANIPULATION THAN ON STATEMENTS TO THE CONTRARY.

8. AT THE CONCLUSION OF THE HEARINGS CONGRESSMAN RICHMOND SAID THAT HE WOULD MAINTAIN CONTACT WITH THE DEPARTMENTS OF STATE AND TREASURY TO SEEK POSSIBLE REMEDIES TO CURRENT HIGH PRICES.

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## Message Attributes

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